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**THE FRESH FISH DISTRIBUTION INDUSTRY IN ONTARIO:
IMPLICATIONS FOR B.C. FRESH SALMON MARKETING**

**Economic and Commercial Analysis
Report No. 55**



**Fisheries
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**Pêches
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Canada

**THE FRESH FISH DISTRIBUTION INDUSTRY IN ONTARIO:
IMPLICATIONS FOR B.C. FRESH SALMON MARKETING**

Economic and Commercial Analysis Division

Program Planning and Economics Branch
Department of Fisheries and Oceans
Suite 400 - 555 West Hastings Street
Vancouver, B.C.
V6B 5G3

May 1989

Report prepared by:

Glenn Petersen

A joint undertaking between the Department of Fisheries and Oceans and the B.C. Salmon Farmers Association.

**Economic and Commercial Analysis
Report No. 55**

PUBLISHED BY:

Scientific Publications
Communications Directorate
Department of Fisheries and Oceans
Vancouver, British Columbia
V6B 5G3

(c)Minister of Supply and Services
Canada 1990
Catalogue Number FS66-5/55E
ISBN 0-662-17704-5
ISSN 0843-5626

Correct citation for this publication:

Department of Fisheries and Oceans. 1989
The Fresh Fish Distribution Industry in Ontario:
Implications for B.C. Fresh Salmon Marketing.
Economic and Commercial Analysis,
Report 55: p. 37

ABSTRACT

Distribution channels for fresh fish appear poised to undergo a number of structural modifications. These changes are expected as a result of changing factors in both the marketplace and the supply of fresh fish and seafood. The most significant of these changes include increasing consumption of fresh fish by consumers, the rapid expansion of major retail grocery chains into the sale of fresh fish, and the expansion of the international aquaculture industry.

This study represents an analysis of fresh fish and seafood distribution in the province of Ontario. Attention has been focused on the distribution of fresh, farm raised salmon in general, and on B.C. salmon in particular. While a number of the findings of the study may represent trends which are prevalent throughout North America, it should be cautioned that local factors could influence conditions in those regions to some extent.

RÉSUMÉ

Les canaux de distribution du poisson frais semblent sur le point de subir plusieurs transformations d'ordre structurel. Ces changements découleront de l'évolution du marché et des facteurs qui influent sur l'offre de poissons et de fruits de mer frais. Au nombre des changements les plus déterminants figurent la consommation accrue de poisson frais par la population, l'accroissement rapide du nombre de grandes chaînes d'épiceries au détail qui vendent du poisson frais et l'essor de l'industrie aquicole à l'échelle internationale.

L'étude consiste à analyser la distribution du poisson et des fruits de mer frais dans la province de l'Ontario. On y examine plus spécialement la distribution du saumon d'élevage frais, de façon générale, et celle du saumon de la C.-B., en particulier. Plusieurs des constatations faites par les auteurs peuvent refléter des tendances présentes dans toute l'Amérique du Nord, mais il convient de noter que les facteurs locaux peuvent aussi déterminer, dans une certaine mesure, les conditions dans les régions étudiées.

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OBJECTIVES

The primary goals of the study were:

- 1) to describe the role, functions and capabilities of the various fresh fish and seafood distribution channels servicing the Ontario marketplace;
- 2) to match the needs of B.C.'s salmon aquaculture industry with the needs of its end-user customers to determine the keys to successful distribution and identify the potential problems and opportunities inherent in a strategy of selling direct;
- 3) to determine the amounts of salmon currently flowing through each of the classes of channel members; and
- 4) to identify trends in Ontario's fresh fish distribution industry, and from these trends to determine the implications for the marketing of British Columbia's farm raised salmon.

METHODOLOGY

In order to complete the study as described, in-person and telephone interviews were conducted with over twenty-five companies and individuals at all levels of the seafood distribution industry. Specifically, three processors, four brokers, two integrated processor/wholesalers, 10 wholesalers, and five retail and food service buyers, all of whom serve the Ontario market, were contacted directly. Additionally, a number of individuals not concerned with the Ontario market, as well as food industry consultants and fisheries officials, have been contacted.

To allow for the collection of detailed information, interviewees were assured that company-specific data would remain confidential. For this reason, company names are not used in a direct manner, except where public information was available.

STRUCTURE OF THE INDUSTRY

The fresh fish distribution industry in Ontario -- from taking the fish from the water to delivering them to the final consumers -- involves a number of key participants.

While many similarities and dissimilarities exist, these companies can be grouped into the following categories:

- 1) Processors
- 2) Brokers
- 3) Wholesalers/Distributors
- 4) Food Service Firms
- 5) Retail Firms

1) Processors

Processors are represented by those firms which physically obtain the fish in either a live or freshly killed state, and then add value to the fish by dressing and packing it for market. This category can therefore contain large, integrated fishing firms with their own capture vessels; farms, fishermen's or fish farmer cooperatives with wholly owned or subcontracted processing (dressing) facilities; or integrated brokers/processors which purchase, process and resell fish without any ownership of farms or capture vessels.

2) **Brokers**

Brokers represent firms which act strictly as middlemen in the supply of fish from processors to wholesalers. They do no processing themselves, and generally do not sell directly to food service or retail firms. Most handle the products of a particular supplier on an exclusive basis for the territory which they service. Minimum order quantities are large, and margins are very low.

Given that brokers operate as -- or in place of -- local sales agents for processors, these two types of selling representatives will be treated as one for the purposes of this study.

3) **Wholesaler/Distributors**

Wholesalers are firms which sell fish directly to food service establishments and retailers on a relatively local level. In general, they receive their fish in dressed (gutted) form, but may subsequently fillet or 'steak' the fish as requested by their customers. Most wholesalers do not sell directly to the public (to avoid competing with their own primary customers), however, there are notable (and successful) firms which do conduct retailing.

4) **Food Service Firms**

Food service firms purchase, prepare and serve fish for immediate consumption by the general public. As such, this category includes restaurants, catering firms and institutions with in-house food preparation facilities.

5) Retail Firms

As with food service, retail firms represent the final link between the seafood industry and its end consumers. With retail, however, it is assumed that the consumers will prepare the fish themselves. There are two primary forms of fresh fish retailers; grocery chain stores and small, specialty fish shops.

WHOLESALEERS

In order to examine the business of wholesaling fresh fish and seafood, it will be useful to divide these firms into two major groups:

1. full-line food wholesalers, and
2. specialty seafood wholesalers.

Full-line food wholesalers handle thousands of different seafood and non-seafood products. Specialty wholesalers generally limit themselves to the distribution of fresh and frozen seafood.

Full-Line Food Wholesalers

Full-line wholesalers are represented by over 20 major firms in Ontario, of which only two sell fresh fish. These firms handle from 4,000 to 9,000 different inventory items, allowing them to service most of the needs of their primary customer group, restaurants and institutions. Products range from paper plates to cleansers and from frozen food to fresh produce. Generally, however, they do not include fresh meats and poultry. Fresh fish and seafood accounts for less than ten percent of company revenue. While this still represents more than 15 percent of the total Ontario market, this figure is biased by the large purchases made through one of these companies by a big seafood restaurant chain as well as a number of stores owned by one of the major retail grocery chains.

In general, these firms cannot offer competitive delivery service (same day versus next day), and as a consequence are not expected to substantially increase their position in the market. The two firms continuing to sell fresh fish are doing so because of historical reasons, and it is highly unlikely that other large, full-line wholesale distributors will expand into fresh fish. In fact, one firm mentioned that the only way it will ever be competitive and therefore potentially profitable in fresh seafood will be through the establishment of a separate, dedicated organization.

Specialty Seafood Wholesalers

Structure

There are nine sizable specialty seafood wholesalers (annual fresh sales exceeding \$2 million) as well as at least 29 small firms in Ontario. A listing can be found in Exhibit One. Most of these firms sell both fresh and frozen seafood.

Pricing and Margins

The average mark-up available to wholesalers on fresh seafood is 20 percent. This varies with the size of account by as much as 10 percent. The mark-up on salmon is considerably lower in general, averaging 16 percent. The business appears to be very price sensitive.

Delivery

Most of the specialty suppliers offered same day delivery, to their top accounts at least. Average customer orders varied from \$200 to \$1800, depending on the type of firm (food service versus chain retail). Customers ordered one to seven times per week, with chain stores averaging two to three times per week, and some better restaurants looking for daily deliveries.

Purchasing

Specialty wholesalers purchased their products from 20 to over 100 different processors and suppliers. Salmon purchases (including both Atlantic and Pacific-raised fish) were made from an average of four suppliers. Wholesalers that focused on better quality appeared to use fewer suppliers and to work at building solid relationships, as compared to those companies competing more on the basis of price. All companies tended to maintain more than one source of supply for each commodity. Desired delivery of shipments was generally twice per week, on Sunday and again on Wednesday. Orders and purchases were generally made after having previously received firm orders from their own customers.

For salmon, the average purchase quantity was an LD3 air cargo container (approximately 2700 lbs, depending on packing method). This is particularly true for Pacific Salmon, where LD3 shipment represents the only cost-competitive means of shipment (purchase in less than LD3 lots results in a tripling of the normal \$ 0.19/pound transportation charges). While all wholesalers were quick to proclaim the shelf-life virtues of farm-reared salmon,

claiming it to be up to three weeks (not true if quality to the consumer is to be maintained), it is obvious that for profitable wholesaling of Pacific Coast salmon, wholesalers must be able to achieve a sustainable volume of at least one LD3 per week.

Processing

Most wholesalers conducted some amount of in-house secondary processing for their customers, primarily filleting and steaking. Local fresh water fish were occasionally purchased whole, and in this case, the wholesaler also conducted primary processing. With salmon, most customers prefer to purchase the fish whole, and then process it themselves as necessary. It is expected that this trend will continue.

Options for Growth Available to Specialty Wholesalers

Integration - Brokerage

Within the current market there already exists a fluctuating level of selling and buying among various wholesalers. There are two reasons for this activity. First, this situation arises due to one wholesaler having a source for products otherwise unavailable. In the second case, two or more wholesalers combine their requirements in order to obtain purchase discounts or desired (smaller) quantities.

Given the volume discounts available and the price sensitivity of (retail) customers, it is possible that a larger wholesaler could obtain a cost advantage by acting as a broker and

sourcing for competitors. One of the largest Toronto wholesalers recently hired a senior purchaser from a large broker and will be attempting this strategy. Interest from competitors in using this service on a regular basis is at this point unknown.

Integration - Processing

In addition to the current level of secondary processing conducted by wholesalers, it is possible that wholesalers may attempt to obtain an interest in ocean-based processing facilities. In the Toronto area, two firms are involved in this manner, Booth Fisheries and the Union Fish Market.

Booth Fisheries is a large North American firm with four processing facilities and 17 major distribution centres. Booth is owned by Sara Lee Foods Corporation. This scale and vertical integration could provide Booth with a considerable advantage. By avoiding middlemen while retaining volume, margins can be increased. In addition, secondary processing operations (filleting and steaking) could potentially be conducted by trained personnel in relatively low labour cost areas. However, there remains a difficulty in that fish tends to deteriorate more quickly in filleted form, and shelf-life is therefore reduced. It is notable that no other wholesalers mentioned that they were purchasing from Booth. This could indicate that since Booth is a competitor, they will not consider it a supplier. This is an important consideration for other processors who may wish to sell salmon direct to retail or food service establishments.

The second (much smaller) company, has just begun a cooperative processing venture with fishermen in Grenada, W.I. As a result of this backward integration, the company expects greatly increased margins. In addition, the firm, which already maintains a small retail business, will also begin to supply other wholesalers, as possible, from Grenada. It will be interesting to see how responsive competitors will be to choosing this company as a new supplier.

Expanding Geographic Coverage and Number of Distribution Points

Once again, Booth Fisheries is one of the only wholesalers which operates in Ontario and has additional distribution centres. One other large wholesaler has a sister organization in Montreal, but conducts little joint purchasing (to date), and therefore enjoys few economies of scale from this association. It would appear that geographic expansion of fresh fish and seafood wholesaling only makes sense if the company also has captive processing capabilities, and therefore can obtain economies of scale at this level of the value chain.

Expansion into New Products

The opportunity to expand into some additional products does exist for specialty wholesalers. In the most extreme case, this would reorient them into a position as full-line wholesalers, which would be a most difficult and risky transition. However, Booth Fisheries has headed down this path to some degree, mainly through exclusive distribution agreements.

On a more limited scale, a number of companies are expanding their sales of frozen fish and some seafood associated products (sauces, etc.). Frozen food holds the lure of a substantially larger market and a greatly reduced shelf-life (months versus days). Additional costs include freezer storage equipment and freezer-equipped trucks.

Expansion through Acquisition

Given the increased competition expected within the fish and seafood wholesaling industry, as well as the purchasing economies of size that wholesalers can obtain, it is likely that acquisition opportunities will arise. A key concern for the acquiring firm in these situations will be to ensure that critical customer relations are not lost in the merger.

SEAFOOD BROKERS

Structure

There are approximately 10 large seafood brokers dealing with fresh seafood in Ontario. A listing can be found in Exhibit Two. Most brokerage firms sell only frozen seafood, and of the ten firms mentioned, most have only entered the fresh seafood business within the last few years. This is largely a result of the emerging aquaculture industry, with its year-round supplies of fresh salmon.

Customers

Brokers have historically sold to wholesalers, who in turn sell to end-user accounts. Some brokers are now quoting to chains directly, but successful sales are still routed through wholesalers who drop-ship to individual store locations. Some brokers also conduct limited direct end-user sales to the food services trade, again directing shipments through wholesalers.

Pricing and Margins

The average mark-up brokers add to their sales of fish and seafood is in the range of three to five percent. However, most of the individuals interviewed were reluctant to provide detailed financial information, and therefore the data which was provided must be held suspect. Margins appear to be higher for non-salmon items, and frozen products may also

enjoy a slight margin advantage. This is very interesting, as fresh product involves considerably more difficulty and, from a cost and logistics standpoint, would appear to demand a premium.

Delivery

Brokers, as a rule, do not offer their customers delivery. They have no delivery vehicles. For their frozen business they usually lease storage facilities. Their customers are required to pick up shipments themselves, usually directly from the airport. An average customer order is approximately \$2,000, and minimum order quantities are usually in the range of \$500. Although customers are faced with the burden of physically having to move the product, the broker is closely involved in tracking the shipment from the time it leaves the processor's facilities until it reaches Toronto.

Purchasing

Brokers generally have specific, often exclusive, agreements with suppliers for each of the various products they sell. In this regard, they act much like a processor's agent for the particular region. The agreements established take a variety of forms, from simply purchasing at whatever price the processor is currently selling at, to profit-sharing arrangements whereby the broker attempts to obtain the maximum prices that their market will bear, and then splits the proceeds between the two parties.

Fresh Versus Frozen Brokerage

As mentioned previously, many brokers deal exclusively with frozen products for those handling fresh products, the selection they sell is generally limited to a few items. This is due almost exclusively to the perishability of fresh seafood.

Frozen products can be shipped cost-effectively by road in relatively small quantities, and therefore can be sold to a wider group of customers who are not large enough to handle LD3 shipments. In addition, the expediting requirements involved with fresh fish to ensure that the product arrives on time and in high quality condition demands considerably more time and effort (up to four to five times as much) on the part of the broker. Brokers often claimed that they had to take an active role from the time that the fish left the water until the customer unpacked them in their warehouse. This was to ensure that all claims for spoilage were avoided. With the extremely low margins available in brokerage, one or two significant losses could be very damaging to the firm's profitability.

Processing

None of the brokers contacted conduct any processing. Even international firms do no processing in-house.

Options for Growth Available to Seafood Brokers**Integration - Processing**

As with wholesalers, brokers have the possibility of integrating backwards into processing. For most of the small brokerage outfits serving local markets this does not represent a viable business endeavour. But larger companies could potentially benefit given their broad geographic market potential.

A major issue would appear to be the clashes what could be expected with their current suppliers, many of whom rely entirely on one of the brokers for all of their selling requirements, at least within a given market region. Until a broker could expect to be reliably supplied by their own sources, the results could be failure to serve their own customers well.

Processing of wild-caught seafood is a difficult business due to supply problems. Only the large, integrated fisheries firms, who have their own vessels and quotas, are somewhat immune to this problem.

The supplies of product available through aquaculture may eventually alleviate these problems and open new opportunities to brokers. The fact that some brokerage firms have now invested in sea farms would indicate that this is the case.

Expanding International Coverage

A number of the larger firms have expanded their sales and marketing organizations to serve new markets from additional offices. This creates purchasing economies of size and scale. Once again, this option is generally only available to the larger firms.

Selling Direct to End-user Accounts

Brokers have the possibility of integrating forward, and selling to end-user accounts, food service and retail establishments. This strategy would also place them in direct competition with their primary customers, seafood wholesalers. As a result, companies involved in direct sales also include wholesalers as middlemen, giving them a commission on the direct sale. For this, wholesalers are responsible for organizing shipment to the customer, and therefore in breaking and assembling orders.

There are (indirect) indications that one of the large brokers is considering integration into direct distribution. This has been stimulated by expanding chain store demand, where they already sell frozen seafood directly. To successfully implement this strategy, these firms will have to invest in new facilities and trucks, as well as new administrative personnel and systems. It is likely that such a move will put significant strain on such a firm's relations with its wholesaler/distributor network. A recommended strategy for these companies would be to focus on maintaining relationships with those wholesaler/distributors who specialize in supplying food service and smaller retail accounts.

MATCHING SALMON AQUACULTURE AND END-USER NEEDS

In order to examine which channels the B.C. industry and its end-user customers should use in moving salmon from the farms to the markets, a valuable perspective can be obtained through attempting to match supplier and customer needs. The goal will be to outline the identified needs, and then to match them with in-house and channel member capabilities so as to determine the most desirable distribution strategy.

SALMON PRODUCER NEEDS

Transactional Requirements

Increase Market Awareness and Position for B.C. Farmed Salmon

In order to develop a sustainable, less price-sensitive market position, there is a desire to establish a unique market identity for B.C. salmon. This is a difficult (but not impossible) goal due to both the market's perceived commodity-like status for fresh fish, as well as B.C.'s relatively late entry into the farmed salmon market. It is important to recognize that each member of the marketing channels plays a critical role in achieving this awareness. In view of this, and the level of ambition and expected gains of various parties, the fewer the channel members (i.e. the more direct the sale), the greater the likelihood for success in achieving market awareness will be. At present, Ontario consumers are relatively uninformed about species-specific differences, and as a result, do not exhibit particular preferences in this regard.

Create Awareness and Demand for Individually Branded Salmon Products

A number of the larger companies wish to develop individual brands of fresh salmon (e.g. B.C. Packers' "Thunderbird"). Primary methods used to date include gill tags and specially labelled packaging. Current brokers and wholesalers have no experience in handling or creating identities for branded products, having always treated fresh fish and seafood as commodity status products. As a result, it will be extremely difficult to initiate this activity.

The second major obstacle for individual identities exists at the consumer level. Companies wishing to pursue brand differentiation to this level must be willing to commit millions of dollars to the campaign, a commitment which is typical for the foods industry.

Billing and Collection of Accounts Receivable

Specialty seafood wholesalers generally supply approximately 275 customers. For full-line wholesalers, this number is close to 2,500. Likewise, average customer orders are \$250 and \$800, respectively. Most customers order two to three times per week. This means that an average specialty wholesaler handles about 35,000 orders a year. As a result of this considerable number, the wholesaler distribution business represents a sizable administrative challenge. In addition, wholesalers servicing primarily food services customers have a proportionately higher number of orders to handle as a result of these customers' smaller and more frequent purchases.

Highest Possible Contribution

For the salmon farming industry in B.C. to maximize its income, it should be concerned with maximizing its contribution from sales, at least over the medium to long term. Contribution in this context can be taken to represent net selling price times volume minus costs of providing a primary processed whole salmon.

Net selling price can be taken to include variables; the final price to the end-user, and the

margins required by each member of the distribution channel employed. Final pricing to end-users is itself based on a number of market factors, such as the prices available from other salmon sources. However, there also exists some latitude for wholesalers to obtain higher prices through building a higher perceived quality image (e.g. Norwegian salmon). To date, wholesalers have market-priced B.C. salmon against Atlantics.

An average net mark-up of 21 percent is available between primary processed salmon and the selling price to retail chains (see Exhibit Three) excluding shipping costs. The same figure for food service accounts is about 33 percent. Looking at channel member markups, processors receive an average selling commission of four percent of the final selling price, and their local brokers or sales branches receive a similar four percent. Wholesaler margins average 12 and 22 percent for chain retail and food service accounts, respectively.

Obviously this 21 percent is an attractive target for salmon producers, which could in theory significantly increase the margins currently received for whole fish. The key is to carefully examine the critical services provided by channel members, and determine whether any particular firm or organization could more efficiently provide end-users with the same value.

Assuming production costs to be a non-marketing channel related expense, the final factor affecting net contribution is total sales. As with building market (end-user) awareness, increasing total sales relies primarily on those parties directly in touch with end-users, usually wholesalers at present. Wholesalers have no particular loyalty or incentive for developing B.C. salmon sales, and are more likely to be motivated by price considerations.

With increased direct buying by chain retailers (see Exhibit Four), where the wholesaler usually receives a set price per pound or percentage of sales value, they have little incentive to promote a particular salmon, or salmon at all. In fact, wholesalers serving these customers may be more inclined to push smaller volume products which the chains do not buy direct. Through this practice they could effectively increase their margins.

Given the increased direct buying by chain retailers, brokers and the sales staffs of processor are increasingly in direct contact with the largest of these accounts. As a result of the more direct supply affiliations of these firms, greater latitude for developing market awareness and loyalty exists through this channel.

Physical Activities

Primary Processing and Packaging of Fish

Primary processing, and particularly the packaging of fish for shipment, offers producers marketing opportunities. The labelling of packages represents a key means of achieving brand awareness and product differentiation with wholesalers and end-users. A future opportunity may also exist to make it easier for chain retailers to buy direct, by offering smaller boxes of salmon. One U.S. chain contacted purchased all its fresh fish in ten pound boxes, which made in-house breakup and distribution easier.

Grading of Fish

To maintain the industry's image, it will eventually be necessary that the quality of the fish be more accurately assessed prior to shipment to customers.

Tracking of Shipments from the Processing Plants to the Destination Airport

Tracking of shipments, ex-processing plant, represents a major challenge and time commitment. Regular problems include the following:

- 1) Processing may not be completed on time.
- 2) Ground transportation may not deliver the salmon to the airport on time.
- 3) Flights may be cancelled.
- 4) Shipments may be bounced from a flight, where priorities are passenger's luggage first, mail second, air freight third.
- 5) Landing in Toronto may be delayed due to weather.

In each of these instances, proper care must be ensured for the salmon during its delay, alternative flight arrangements made, and destination ground transportation altered. For these reasons, processors and brokers claim that fresh shipments require four to five times the coordination time and effort of frozen products. If increased direct sales are to be pursued, these responsibilities will fall on the shoulders of the remaining channel members. Farms considering forward integration into processing and sales must accurately assess the costs associated with these activities, an area in which they have little if any current expertise.

Pickup of Air Shipment and Delivery to Breakup Centre

Destination airport pickup of LD3 shipments is usually the responsibility of wholesalers. Brokers do not have their own trucks, and if required to provide transportation, employ a trucking firm. Likewise, end-users are not accustomed to having to pick up their own shipments, even if they had the vehicles (which most do not) and had the volume to handle full LD3 shipments. Some chains do currently pick up other forms of fresh produce from the airport themselves.

Breakup of LD3 Shipments into Quantities Desired by Customers

Virtually all customers purchase salmon in smaller than LD3 lots, and as a result it is necessary to break up shipments. Currently in Ontario this is strictly the domain of wholesalers. The largest Ontario chain stores are likely to follow the lead of U.S. stores in privately handling this facet of their business, although none admit to having plans for this activity. They have not yet proceeded for three main reasons. First, sales volume will have to increase to offset the capital outlays and overheads involved in such an integration. Second, fresh fish remains a new and highly perishable (therefore risky) aspect of their business. Until retailers feel more confident in this area, they will be unlikely to further complicate their operations. Finally, chain store purchasing staff are still relatively inexperienced at sourcing. Consistent supplies of farm-raised products, as well as established relationships with wild fisheries processors and/or brokers, will alleviate these sourcing concerns.

It is highly unlikely that any meaningful portion of the food service industry will ever purchase directly in LD3 quantities. Buying groups are developing, but will continue to rely on wholesalers to break up shipments, provide secondary processing and individual location deliveries as required. The same conditions are expected to continue with smaller chain retailers and specialty stores.

Store, Handle and Ship Salmon to Maximize Product Quality

In practice, wholesalers obtain orders from their own customers before placing equivalent (cumulative) orders themselves. In this way, inventory costs and risks are minimized. However, there are cases when inventory must be held. The danger is that it could be held improperly, or for too long. Various wholesalers demonstrated considerably different inventory policies and practices, both of which are critical for maintaining quality. Some even mentioned that they loved the farmed salmon because it could be held for two weeks and still be sent to end-users (for subsequent resale). Such practices, as well as dealing through low price (versus quality) focused wholesalers, are very detrimental to establishing and maintaining the high quality image desired by the industry. As a result, distributor selection should be an important factor in each market.

Provision of Ground Transportation to End-User Customers

End-user customers generally purchase small amounts of any product on a frequent basis. Rush (same day) requirements are common in the food services sector. In order to cover

the direct costs involved in making these deliveries, successful firms require many customers within a given area (and/or the opportunity of providing a number of different products in each shipment) to spread the expense. Neither of these factors appears to be desirable for members of the salmon fishing industry to handle directly.

Facilitating Activities

Provision of Information and Services to End-Users

Salmon producers would like to have information regarding product quality, preparation methods, etc., relayed to end-users. To use existing wholesalers will once again require education, which in turn will require direct contact and/or the use of processors and brokers.

As with other information, direct sales would once again reduce the requirement for education.

Collection and Feedback of Customer and Market Information

It is critical for members of the aquaculture industry to receive timely and accurate customer input and market information. This is a practice which channel members have not had to concern themselves with in the past, largely as a result of the commodity type marketing activities which have existed to date. Multiple source buying practices, and the relative lack of close alliances, have been major stumbling blocks in establishing these

information flows.

Development of Channels and Goodwill to Ease the Introduction of Future Aquaculture Products

The relationships which B.C. salmon producers are currently in the process of establishing will have ramifications on the future introduction of new products (e.g. arctic char, oysters, etc.) and product forms (e.g. frozen, smoked, etc.) The same channel members ignored or eliminated in the distribution of current products could well be important at a later date. This suggests that channel decisions should be made carefully, and relationships nurtured.

RETAIL CUSTOMER NEEDS

Volume Discounts

Food merchandising is very competitive and price sensitive, and as a result, chain stores place a heavy emphasis on minimizing their purchase costs. All three large Ontario chains have now, or are in the process of setting up, parallel purchasing organizations (individuals) whose responsibility it is to obtain the lowest possible price for a given product. In one instance, both the chain buyer and the wholesaler/partner search for the best buy, and then the wholesaler places an order through the source decided upon.

With large chains, wholesalers are often reimbursed for their handling of fresh fish on a per pound basis. Others still receive a price that they set, including their margin. The volume discounts obtained by the chains are also used by the wholesaler in purchasing for their other (food service) customers.

Regular Delivery of a Variety of Products in the Quantities Desired

It is critical for chain stores to be able to count on a regular, predictable source of supply. It is therefore essential that suppliers in turn have access to sufficient stocks. All end-user accounts also look for suppliers who are able to provide a number of products in the quantities desired. This is important in order to minimize administrative and delivery costs.

Promotional Quantities Available on Two to Three Weeks Notice

A single chain may require more than 50,000 pounds of salmon for a one week feature. Given that the feature will be price based, they will also require the equivalent of a future price commitment. To date, these two factors have been difficult to obtain, yet promotional features represent an extremely important vehicle for the industry to increase its sales volume and consumer awareness.

High Quality

Retail buyers are very concerned about obtaining maximum product quality. They appear to rely heavily on their wholesalers in this regard, as staff at individual locations are currently not always qualified to make these judgements. Wholesalers supplying less than suitable quality have recently had large quantities returned by chain store customers. In one instance, a single wholesaler was forced to accept a \$30,000 write off in a single month.

FOOD SERVICE CUSTOMER NEEDS

Frequent, Small Order Quantities

In order to maintain quality, avoid spoilage and minimize inventory costs, restaurants prefer to have fresh fish and seafood delivered frequently (average three times per week). This also allows for increased flexibility in adjusting for increases in demand.

Modified Product Forms

Many restaurants prefer to purchase their fish after secondary processing (e.g. fillets). Given that fish deteriorates much more rapidly in these forms, these operations must be provided by local suppliers, or by firms able to provide high speed service from coastal processing facilities. This latter alternative is not as acceptable, as quality inevitably suffers.

Rush Deliveries to Handle Shortfalls

Given the low level inventories handled by most restaurants and the variability of demand for different products, stockouts do occur. Particularly with higher priced establishments it is important that service is maintained and customers not be disappointed. This requires occasional rush shipments (two to three hour delivery) to be demanded from key suppliers, which are very disruptive to normal distribution and secondary processing operations. Some wholesalers claimed to have to deal with approximately two rush orders per day. In order

to handle this requirement, wholesalers must be extremely flexible, responsive and service minded.

Delayed Payment Terms

Many restaurants operate under tight financial constraints, and expect to use suppliers credit to the maximum extent possible (often 90 days). As a result, wholesalers dealing with these accounts must be good at judging credit risk as well as chasing the payment of accounts.

High Quality

Fresh fish are expected to arrive in very fresh condition, with most chefs experienced in methods of checking for this quality.

Consistent Supply

In order to properly service their patrons, restaurants with a set, printed menu require a highly reliable supplier who is able to meet their needs for a variety of items over an extended period of time. Other restaurants whose menu changes daily appear to be not as critical of consistent supply or pricing.

Multiple Order Items

The chef makes the purchase decisions in most food service establishments, and does not have the time to deal with a large number of different suppliers. As a result, the one or two firms chosen must be able to provide a wide variety of species. Larger total order sizes also allow for quantity discounts, largely from decreased delivery costs (which are assumed by the supplier).

CONCLUSIONS AND RECOMMENDATIONS

1) The Role, Functions and Capabilities of Channel Members

Each channel member has a specific set of responsibilities as detailed earlier in the report. While none of the functions are extremely complex or require substantial investment to duplicate, from an operating standpoint they represent difficult challenges for an inexperienced firm. Business relationships and customer knowledge are key, as is the need to obtain volume discounts.

This opportunity of achieving volume discounts as well as the margins available at each level of the distribution chain continues to lead many participants into some form of vertical integration. These ventures are not expected to provide significant success, as the widely varied requirements of each level are not easy to manage within one firm. In particular, the responsibilities of wholesaler/distributors in dealing with food service accounts represent both a significant administrative challenge and business risk. While the margins available from this sector are higher (see Exhibit three), they are necessary to cover the added costs of managing many small, often rush deliveries, difficult credit collection, as well as the need to stock a relatively complete product line.

2) The Amount of Salmon Handled by the Various Levels of the Distribution Channels

It is evident that significant changes in the volumes of salmon handled by channel members are occurring. Not only is the total amount of fresh salmon increasing considerably (from 1400 mt in 1989 to 1900 mt in 1990 - see Exhibit Four), but the amount handled by various members is also changing. To date, wholesaler/distributors distribute 100 percent of the fresh salmon consumed in Ontario. Sales by brokers and wholesaler/distributors versus processor sales staffs are more difficult to determine due to the estimates provided and/or the lack of willingness to supply specific sales information. It would appear that independent brokers selling on behalf of processors control approximately one-third of the trade.

3) Trends in Ontario Fresh Fish Distribution

It is expected that the three large chains (Loblaws, Oshawa Group and Miracle Food Mart stores) will remain the largest end-user group. Smaller chains such as EMA Foods will, in all likelihood, begin to add fresh fish counters within the next two years.

The large chains are expected to begin purchasing directly and distributing seafood themselves within the next three years. They already have the infrastructure in place with other meats and fresh produce. Each is currently near or past the estimated breakeven level of \$4 million in purchases necessary to cover the costs of in-house distribution. Acquiring experience in handling fresh fish is the major factor holding back the chains at present.

As the chains begin distributing themselves, wholesaler/distributors will be left out. This will force these companies to re-focus on serving the needs of smaller retailers and food service accounts, intensifying competition at this level of the distribution channels. The fit is good, however, as these smaller accounts represent markets where wholesaler/distributors' service abilities are in high demand. The critical element for wholesalers losing their chain retail business will be their loss of volume-based purchasing power. A restructuring (consolidation) of the number of specialty wholesalers may be the result of this imbalance.

There are indications that some large brokers will attempt to integrate forward into wholesaler/distributor operations in a move to capture these margins for themselves. In light of the anticipated decline in chain retail requirements for delivery service; the demanding nature; and forecast high levels of competition for food service accounts; this strategy will likely not be as successful as desired. Brokers will have to add substantial overhead, acquire new skills and compensate for the fact that they will be directly competing for their current customers' (wholesaler/distributors) business. This latter fact could have a considerable impact on the sales and profitability of their established operations, as current customers search out new non-competitive sources of supply.

Finally, within the food service sector, individual accounts will continue to band together into buying groups in order to obtain volume discounts. These groups will not distribute themselves, but will place pressure on the prices wholesalers will be able to charge.

4) Direct Distribution Strategies - Matching the Needs of B.C.'s Salmon Farmers with End-User Needs

Industry participants interested in forward integration must focus on two important facts. First, they must distinguish between the requirements of chain retail versus food service accounts, and recognize the differing demands placed on the channel members serving each. Second, they must understand that each level of the distribution channels represents a set of services and expertise which are difficult to duplicate.

Chain retail customers represent the greatest opportunity in the Ontario market. The apparent downside of pursuing this market is that wholesale margins are only half that available from food service accounts (average 11 versus 22 percent). In addition, as suggested earlier, these margins will also disappear as the larger chains begin in-house distribution themselves.

However, the advantages of this approach are still considerable. Direct contact is now possible, and the number of contact people is greatly reduced, from hundreds to only a dozen. Order sizes are increased to the point where a single customer could order a number of LD3 shipments in one week. Salmon represents by far the largest fresh seafood product (from 1/3 to 1/2 of sales). This means that single product sales are possible. Chains have their own distribution systems, which will eventually eliminate the need for supplier trucks.

As the chains are still using wholesaler/distributors, it is critical to maintain good relations

with these individuals. In fact, this group will remain key to obtaining sales from smaller retail and food service accounts. In this regard, wholesaler/distributors should be carefully chosen with regard to their focus on quality and their ability to service smaller accounts. As there are only ten major wholesalers in Ontario, this does not represent a large demand of sale time. Most brokerage business is currently handled by phone. One wholesaler should be chosen in each of Ottawa and Windsor, while Hamilton, London and Kingston represent additional possibilities. In Toronto, it will be necessary to work with at least two to three major wholesalers. It should be remembered that some business failures could result with any firms exhibiting an overreliance on large chain retail business. By focusing on only a few wholesalers, it will be easier to educate them as to the merits of B.C. salmon.

In essence, the recommended strategy is one in which producer/processors only integrate as far forward as what is currently the realm of processor sale staff and/or their representative brokers. Wholesale distribution to food service and small retail accounts is too significant a departure from the industry's current skills, focus and resources, and also represents too competitive an arena. Industry goals and customer needs will best be met by directly supplying only large retail and wholesaler/distributor accounts.

Exhibit One

Wholesaler/Distributors Selling Fresh Salmon in Ontario

Toronto Area -

All Seasons *
Allseas *
Booth Fisheries *
Cross Canada
East-South Seafood Inc.
Fish Harbour
Mediterranean
Michaels Mussels
Newport Fish Importers
North Atlantic/Red Sea
Ocean Queen
Ocean King
Pacific Salmon Industries *
Seacore Seafood Inc.
St. Lawrence Foods
Union Fish Market
Van Horne Fish Distributors *

Hamilton -

Agro Seafoods
Atlantic Fish Market
Finlay-Greenwood *
Stewart & Mack

Kitchener -

Inland Sea Products
Joe Page Import-Export
T & J Seafoods

London -

JNA Distributors
L.R. Jackson Fisheries Ltd.

Ottawa -

Boreal Food Ltd.
Capital Fish Market Inc.
Kaufman *
La Pointe *
Magnafoods Inc.
Pelican Fishery Ltd.
Preston Fish Market

St. Catherines

Manning Store
Dominic's

Windsor

Hy's Fish Market
Mediterranean Fish Market
Windsor Seafoods *

* Largest Fresh Fish Wholesalers

Exhibit Two

Brokers and Processors Selling Salmon in Ontario

Atlantic Silver *
B.C. Packers *
Wayne Brousseau (MacMillan Fisheries) *
Canada Packers
Clouston *
Conners *
Jail Island
JNA Distributors
MDI Foods
John Nagla (Norwegian)
National Sea Products
North Coast (Scottish)
Sutherland Seafoods (New Zealand)
Ten Pounder Inc.
Unigrand International
Walters (East Coast farm/processor)
Windsor Seafoods

* Largest Fresh Salmon Brokers

Exhibit Three Channel Margin Analysis

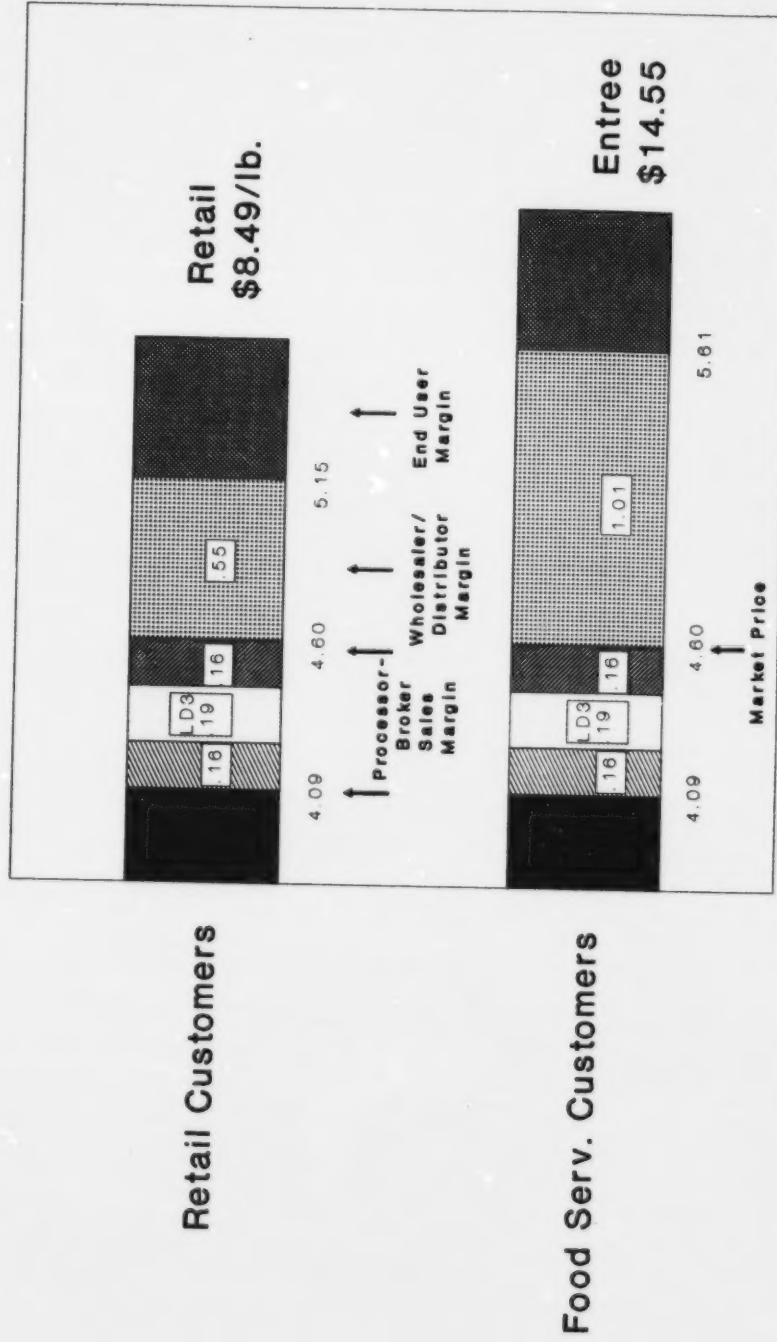
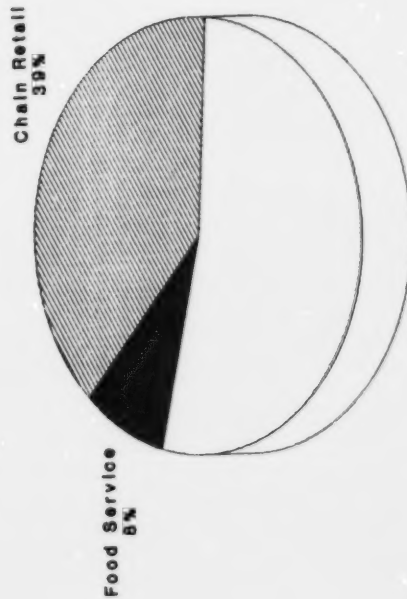
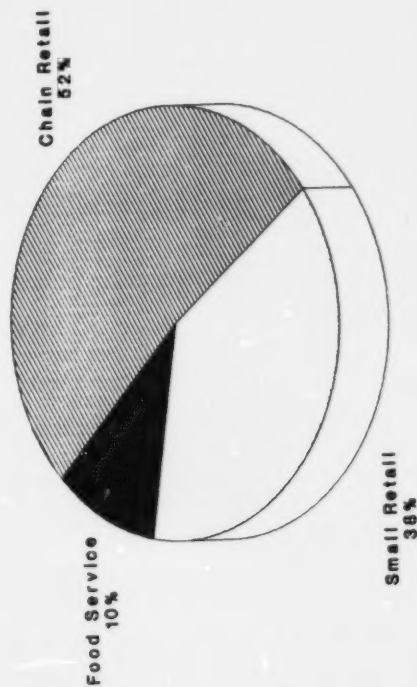


Exhibit Four
Ontario Fresh Salmon Sales
by End User Account



1988 = 1,400 mt



1989 = 1,900 mt